

SALES MARKET

It is just under three years since the peak of the market across prime central London, which is almost the same length of time as that of the economic recession of the early 1990s. However, while average prices across the capital fell by over 20% then, and 16% during the 2008 global financial crisis, average prices (per square foot) of properties across prime London are just 9% lower than their last peak in the summer of 2015 according to both LonRes and Knight Frank research.

Previous declines in the prime London housing market were primarily due to global economics, with the continued uncertainty surrounding Brexit remaining the major player this time. With less than three months remaining before the October deal deadline, price falls across the prime market appear to be bottoming out. Knight Frank report that prices across prime London fell by just 0.4% in the month of May.

New supply across the prime London market rose by 6% in the first half of 2018 compared to a year ago according to LonRes. Properties

priced less than £1 million have witnessed the greatest increase in stock levels, a swathe of these undoubtedly from the rental market as landlords look to sell following tax changes and as sales prices stabilise. However, demand for properties remains highly price sensitive, with price reductions commonplace and withdrawal levels high. Although year-on-year sales in the first six months of 2018 are 3.9% lower, sales across the market in April to June rose 13% compared to the first three months of the year. This compares to a rise of just 0.5% during the same period last year. Sales of prime property, £5 million and above, have remained broadly stable.

The current prime London market is largely driven by those who have a need to move, for employment, education or personal reasons and the latest survey by the Royal Institute of Chartered Surveyors indicates surveyors expect little to change in the coming months. Annual price growth across the capital remains negative according to the May UK House Price Index, although month on month prices have risen by 0.1%, with inner London seeing a rise of 0.5%.

FISCAL POLICY

The government is consulting on proposals aimed at the introduction of a minimum three-year tenancy model for renters. Tenancies would include a six-month break clause and exemptions for certain renters, such as students. Many buy-to-let landlords are welcoming the option of 'financial incentives', which it is argued could be quicker to implement than mandatory minimum terms, while build-to-rent operators are strongly supportive.

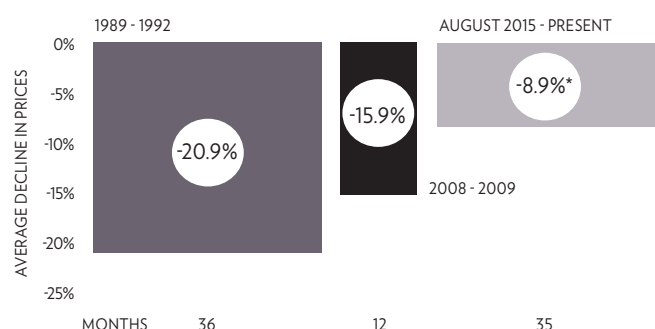
The 2019 Finance Act is liable to include new legislation on the payment window of capital gains tax on residential property which is set for implementation from April 2020 following the consultation earlier this year. The consultation proposed payments should to be made within 30 days of a sale, on a 'payment by accounts' basis as opposed to annually as part of the self-assessment process.

ECONOMIC BACKDROP

The UK economy grew by 0.3% in the month of May according to new monthly figures released by the Office for National Statistics. Economists are also expecting an uptick to be recorded in June following news by IHS Markit/CIPS UK PMI that both the service and construction sectors witnessed their strongest rise in activity since the autumn of 2017, while production output remains stable. Despite predictions it would rise, inflation

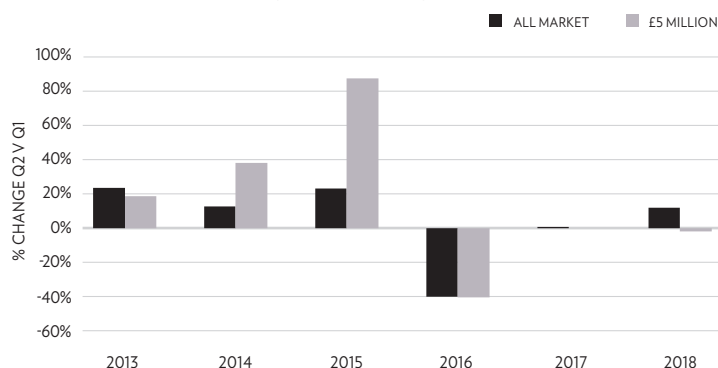
(CPI) in the year to June remained steady at 2.4%, dampening expectations of an interest rate rise at the Bank of England's 2nd August MPC meeting. Economic and Brexit uncertainty continues to affect the value of sterling, which has fallen back from its post referendum high in April and remains over 10% lower against the US\$ than its pre-Brexit peak.

THE LENGTH AND DEPTH OF PREVIOUS DOWNTURNS



Source: dataloft, Knight Frank, UKHPI, LonRes, *Prime London

SALES VOLUMES Q2 VERSUS Q1



Source: dataloft, LonRes

RENTAL MARKET

Annual rental growth across London remained negative in June for the second successive month according to the official IPHRP* produced by the Office for National Statistics. Average rents are 0.2% below that of a year ago. However, across prime central London, Knight Frank report that annual rental growth has turned positive (0.8%) for the first time since January 2016.

New data from the Valuation Office Agency indicates that mean monthly rents across the capital are almost twice that of England as a whole, £1605 versus £829, with nine of the top

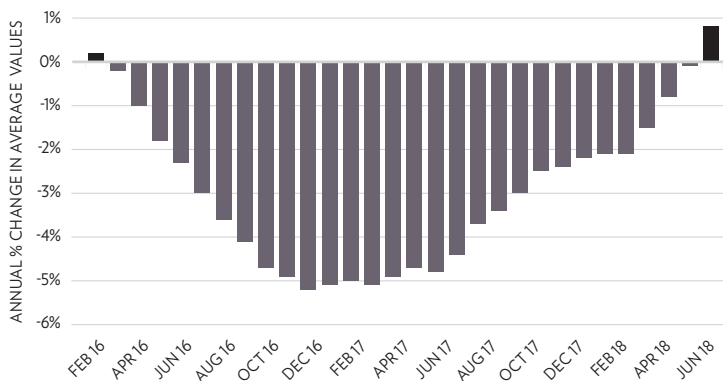
ten most expensive areas in which to live in England located across the capital. The prime residential boroughs of Kensington & Chelsea and the City of Westminster attract significant premiums, with rental values here for the top quartile (top 25% of properties) exceeding £3000 per month.

Prices are steady as supply levels have fallen and demand has risen. Across prime London new instructions in the first six months of 2018 were at their lowest level since 2011, and over 10% down on a year ago according to data from LonRes. The margins of the market have been the most

affected, with new supply of rental properties for less than £1000 per week down by over 12% and new supply of properties over £5000 per week at its lowest level since 2014. Demand, however, has been on the rise. Knight Frank assert that the ratio between the number of new prospective tenants and the number of new lettings listings rose to 4.6 in May, the highest figure in more than ten years. However, it is unlikely that rental values will rise in any dramatic form. Results from the latest survey of chartered surveyors by RICS indicate that a net balance of agents expect rents to remain stable over the next three months.

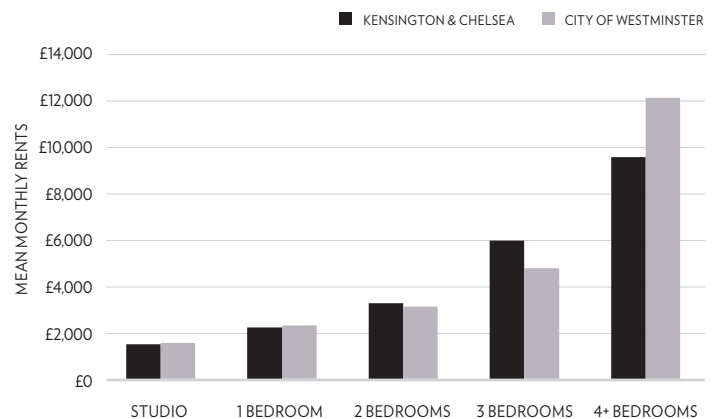
* Index Private Housing Rental Prices

VALUE GROWTH RETURNS POSITIVE



Source: Knight Frank Research

RENTAL VALUES BY BEDROOMS



Source: Valuation Office Agency (June 2018), based on the top 25% of properties let

GOLDEN VENN PERSPECTIVE

The prime London market continues to showcase its resilience. Average price falls across prime London are significantly lower than during both the global financial crisis a decade ago, and the recession of the early 1990s. And as we are approaching the October Brexit deal deadline, there are indications that prices might be bottoming out.

Although political and Brexit uncertainty remain, an increase in new supply has led to more choice across the market and there has been a slight uptick in sales volumes during the spring compared to the start of the year. Price sensitivity and the present commonality of reductions across the market place offer leverage for the buyers who are willing to negotiate, while the relatively low value of sterling continues to provide opportunities for the international investor.



Golden Venn is a boutique firm specialising in advising international buyers on the acquisition of investment properties in prime central London and other major cities around the world.

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